

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION
CORPORATION ET AL

THE GRAND UNION COMPANY
ANNUAL REPORT

1963



ANNUAL MEETING

The Annual Meeting of stockholders will be held at 11 A.M., Wednesday, May 27, 1964 in the auditorium of the Garden State Plaza Shopping Center, Routes 4 and 17, Paramus, New Jersey. A notice of the meeting, a proxy statement and form of proxy are being mailed to each stockholder with this report.

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NEW!!

The more than 500 items of "Grand Union" merchandise will soon be packaged in this contemporary label design.

Bright and eye-catching, the new label is an excellent shelf salesman for the company's own brand of quality foods and general merchandise.



THE GRAND UNION COMPANY

ANNUAL REPORT

for the fiscal year ended February 29, 1964

FINANCIAL HIGHLIGHTS

	1963	1962
NET SALES	\$667,417,492	\$630,529,554
EARNINGS BEFORE INCOME TAXES	14,370,214	10,204,089
FEDERAL INCOME TAXES	7,350,000	5,150,000
NET EARNINGS	7,020,214	5,054,089
EARNINGS PER COMMON SHARE*	1.41	1.00
WORKING CAPITAL	43,828,591	38,987,406
CURRENT RATIO	2.08	2.14
INVENTORIES	59,004,951	53,763,630
NUMBER OF COMMON STOCKHOLDERS . .	12,961	12,356

* Based on the average number of shares outstanding during the respective periods. The earnings per share for 1962 have been adjusted for the 2% common stock dividend paid May 24, 1963. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.



"... Grand Union pursued a major program of renovation and enlargement of existing stores . . ."



"... our people are efficient, enthusiastic and able . . ."



"... a chic department store image now greets the (Grand-Way) shopper . . ."

"... this new manufacturing venture has proved an outstanding success . . ."



FROM THE PRESIDENT



To Stockholders:

A new sales record was set and earnings were increased substantially in fiscal 1963.

Sales of \$667,417,492 were the highest in Grand Union's 91-year history and 5.9% greater than 1962 sales of \$630,529,554. Net earnings were \$7,020,214, a 38.9% increase over 1962 earnings of \$5,054,089.

Earnings per share of common stock rose to \$1.41 from the \$1.00 earned in 1962.

After the close of the 1963 fiscal year, the Board of Directors, on April 10, 1964, voted a 4% stock dividend and the regular quarterly cash dividend of 15¢ per share on the common stock, both payable on May 22, 1964, to stockholders of record April 22, 1964.

IMPROVED PERFORMANCE FACTORS

Several factors were responsible for the company's improved performance during 1963.

Grand Union pursued a major program of renovation and enlargement of existing stores. A total of 52 outlets was involved; 42 stores were renovated, 10 enlarged. A similar program is planned in 1964.

New store development continued at a good pace. Eighteen new markets were opened. An increase in new store construction is planned in 1964, when some 25 units are scheduled to open.

HIGHER PRODUCTIVITY

Credit for improved performance must also be given to a continuing program of stringent cost control coupled with positive steps taken to achieve higher goals in output per man hour.

Fiscal 1963 was the first full year these programs were in operation. Their worth is proved by a rising profit ratio.

Stable employee relations and lessening of special promotions needed to combat competitive pressures a year earlier were among other factors that made 1963 a more successful year.

NEW PRIVATE LABEL

The year 1963 also witnessed the introduction of a new private label design, seen in full color on the first page of this report.

This attractive contemporary design replaces numerous private labels evolved over many years for a variety of products processed and packaged for Grand Union. More than 500 separate items are involved in the changeover now in progress. The new look of our labels is attracting new customers for the company's own brands.

CHANGED GRAND-WAY CONCEPTS

Grand-Way merchandising concepts received a new emphasis during 1963. A chic department store image now greets the shopper. Quality fashion lines, considerably upgraded from earlier presentations, have broadened consumer appeal.

Opened last October, the 23rd and newest Grand-Way in Binghamton, N. Y., best reflects the more sophisticated focus on fashion merchandise. Central pay and wrapping stations, carpeted floors, recessed lighting fixtures and wall murals underscore the department store atmosphere.

Grand-Ways will be opened during 1964 in Peekskill and Rome, N. Y.

POTATO CHIP PLANT

A potato chip plant was opened in Bridgeport, Connecticut, by Nancy Lynn Bakeries, Inc., the wholly-owned Grand Union subsidiary now supplying bread and 190 other varieties of baked goods to more than 400 of our stores.

This new manufacturing venture has proved an outstanding success. The plant's premium quality potato chips are now selling at a rate in excess of 2,000,000 bags a year.

EASTERN CONTINUES GROWTH

Eastern Shopping Centers, Inc., Grand Union realty affiliate, reported net earnings of \$107,835 in 1963, after depreciation of \$512,260. This compares with net earnings of \$103,744 in 1962, after depreciation of \$405,575.

During the year, Eastern concentrated on an expansion program for existing properties. It also opened the Gulf-to-Bay Plaza in Clearwater, Florida. The firm now has ten shopping centers in operation with a total rental area of more than 2,000,000 square feet.

Eastern Diversified, Inc., Florida industrial development firm 46% owned by Eastern Shopping Centers, had net income of \$456,772 in 1963, its first full year of operation.

The firm holds prime industrial property in central and eastern Florida. Among its 1963 projects was erection and leasing of a 56,000 square foot facility on Merritt Island, adjacent to Cape Kennedy, for use by the U.S. Army Corps of Engineers.

TRIPLE-S AND P I C

For the Stop and Save Trading Stamp Corporation, distributors of Triple-S Blue Stamps, 1963 was a year of continued progress. Three redemption centers were opened, drive-in windows to speed customer service were added to two centers and work was begun on an enlargement to the general offices and warehouse in South Hackensack, N.J.

Performance Incentives Corporation, Grand Union's sales and safety incentive affiliate, added to its staff in 1963 as business increased. P I C plans to open several new offices in 1964 to service additional campaigns in the Southeast.

W. F. DEMPSEY TO RETIRE

William F. Dempsey, former Senior Vice President of Grand Union who continued as a Director after he retired as an officer in 1960, has informed the Board of his intention not to stand for re-election.

Mr. Dempsey's more than 30 years' service spans the period of the company's greatest growth. Grand Union owes much to his contributions during these years.

EMPLOYEES' SERVICE

No review of 1963 would be complete without commendation of the more than 18,000 Grand Union employees for their ability and devotion. The company's success is truly the sum of their service.

This, then, is the state of Grand Union in the new fiscal year: Our physical plant, stores and equipment, is unexcelled in the industry. Our people are efficient, enthusiastic and able.

The nation's expanding economy presents Grand Union with an unprecedented opportunity in 1964 to improve on the gains of the past year. We are determined to make the most of that opportunity.

Thomas C. Butler
President

THE GRAND UNION AND ITS SUBSIDIARIES Consolidated Balance Sheet

ASSETS

	<u>FEB. 29, 1964</u>	<u>MAR. 2, 1963</u>
Current assets:		
Cash	\$ 16,549,646	\$ 15,447,311
Temporary cash investments, at cost	5,092,547	1,014,508
Accounts receivable, less allowance for losses	3,466,616	3,018,347
Properties to be sold and leased back	138,739	—
Inventories, at the lower of cost or market (Note 1)	59,004,951	53,763,630
Total current assets	84,252,499	73,243,796
Investment in and advances to affiliated companies, at cost (Note 2) ..	3,538,232	3,334,232
Fixed assets, at cost less allowances for depreciation and amortization (1964, \$37,959,989; 1963, \$33,348,498) :		
Land	2,436,040	2,771,427
Fixtures and equipment	37,627,799	37,512,115
Leasehold improvements and leaseholds	12,447,208	12,186,384
Other	1,299,998	1,351,949
Operating and construction supplies	1,289,761	1,203,557
Other assets and deferred charges	2,437,515	3,520,076
Cost in excess of amounts of net assets at dates of acquisition	7,433,074	7,444,193
	<u>\$152,762,126</u>	<u>\$142,567,729</u>

ON COMPANY

BSIDIARIES

Balance Sheets

LIABILITIES

	<u>FEB. 29, 1964</u>	<u>MAR. 2, 1963</u>
Current liabilities:		
Promissory notes due within one year	\$ 1,250,000	\$ 1,250,000
Accounts payable and accrued liabilities	33,130,187	30,259,176
Federal income taxes	6,043,721	2,747,214
Total current liabilities	40,423,908	34,256,390
Promissory notes payable after one year in varying amounts annually through 1973	12,187,500	13,437,500
4½% Subordinated debentures, due 1978 (Note 3)	9,871,600	9,871,600
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1964, \$4,522,256; 1963, \$4,566,939)	1,500,000	1,520,000
Deferred Federal income taxes	4,954,165	3,692,654
Other noncurrent liabilities and reserves	1,668,534	1,538,550
	<u>\$ 70,605,707</u>	<u>\$ 64,316,694</u>

CAPITAL

4½% Cumulative preferred stock, \$50 par value, callable at \$52 per share; authorized 116,000 shares, issued 115,529 shares	\$ 5,776,450	\$ 5,776,450
Common stock, \$5 par value, authorized 6,000,000 shares, issued at Feb. 29, 1964, 4,827,679 shares (Notes 3 and 5)	24,138,395	23,663,725
Capital surplus, as annexed	44,879,602	43,646,272
Retained earnings, as annexed (Note 6)	7,720,828	5,523,362
	82,515,275	78,609,809
Less, Treasury stock at cost (at Feb. 29, 1964, 12,733 common shares, \$162,916; 4,543 preferred shares, \$195,940)	358,856	358,774
	<u>\$ 82,156,419</u>	<u>\$ 78,251,035</u>
	<u>\$152,762,126</u>	<u>\$142,567,729</u>

See accompanying financial notes.

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Consolidated Statements

INCOME AND RETAINED EARNINGS

	FIFTY-TWO WEEKS ENDED FEB. 29, 1964	FIFTY-TWO WEEKS ENDED MAR. 2, 1963
NET SALES	\$667,417,492	\$630,529,554
Cost of sales	522,376,674	496,605,750
Gross profit	<u>\$145,040,818</u>	<u>\$133,923,804</u>
Operating and general expenses:		
Salaries and wages to employees in the sales department	\$ 60,052,325	\$ 56,040,773
Other selling, administrative and general expenses	69,672,795	66,703,772
	<u>\$129,725,120</u>	<u>\$122,744,545</u>
	\$ 15,315,698	\$ 11,179,259
Other deductions, principally interest expense, net	945,484	975,170
Income before provision for income taxes	14,370,214	10,204,089
Provision for Federal income taxes (Note 4)	7,350,000	5,150,000
NET INCOME	<u>7,020,214</u>	<u>5,054,089</u>
Retained earnings, beginning of period	5,523,362	6,977,057
	<u>12,543,576</u>	<u>12,031,146</u>
Less Dividends:		
On common stock:		
In cash	2,873,998	2,814,187
In common stock, based on market price	1,699,128	3,443,975
On 4½% cumulative preferred stock, in cash	249,622	249,622
Retained earnings, end of period (Note 6)	<u>\$ 7,720,828</u>	<u>\$ 5,523,362</u>

CAPITAL SURPLUS

Balance, beginning of period	\$ 43,646,272	\$ 40,884,992
Add:		
Excess of retained earnings capitalized in connection with stock dividends over par value of shares issued	1,227,148	2,755,180
Excess of amounts received over par value of shares of common stock issued under employees' stock option plans (Note 5) ..	6,182	4,764
Excess of principal amount of debentures converted into common stock over par value of shares issued (Note 3)	—	1,336
Balance, end of period	<u>\$ 44,879,602</u>	<u>\$ 43,646,272</u>

Financial Notes

1. Cost of inventories is determined as follows: at warehouses, "average" or "first-in, first-out"; at retail outlets, "retail method."
2. The consolidated financial statements include the accounts of all wholly owned subsidiaries. The company's investment in affiliated companies represented approximately 32% and 51%, respectively, of the outstanding common stock of Eastern Shopping Centers, Inc. and Performance Incentives Corporation. Eastern acquires, develops, and operates shopping centers while PIC offers employee incentive plans for business organizations. At February 29, 1964, the company's equity in the net assets of and advances to these affiliates, based upon the most recent audited financial statements, amounted to approximately \$3,115,000.
3. The $4\frac{1}{8}\%$ debentures outstanding at February 29, 1964 are convertible until July 15, 1968, into common stock on the basis of \$26.20 principal amount of debentures for each share of stock. The conversion price is subject to certain adjustments as specified in the indenture. At February 29, 1964, an aggregate of 376,779 shares of common stock was reserved for the conversion of such debentures.
4. The provision for Federal income taxes includes \$1,434,000 for the period ended February 29, 1964 and \$1,478,000 for the period ended March 2, 1963, applicable to deferred income taxes and investment tax credit. The investment tax credit is being amortized over the useful life of the property.
5. The company has granted options to employees to purchase shares of common stock at not less than 95% of market price on the dates the options were granted. Options may not be granted to directors who are not also officers of the company. Options granted are exercisable at various dates to December 31, 1970. A summary of transactions in shares for the current fiscal period with respect to stock options follows:

Options outstanding, March 2, 1963	346,866
Options granted at \$16.14 and \$17.25 per share	93,782
Shares added to reflect 2% stock dividend	7,945
	448,593
Options exercised, cancelled or expired	39,546
Options outstanding, February 29, 1964 (held by approximately 4,100 employees at prices ranging from \$13.35 to \$29.03 per share)	409,047

At February 29, 1964, there were 3,118 additional shares available for option. The right to grant such options will expire on December 31, 1966.

6. The note agreements and the $4\frac{1}{8}\%$ debenture indenture contain provisions as to the maintenance of working capital and payment of cash dividends. The most restrictive of these provides that consolidated working capital may not be less than \$14,500,000 and that payments for net acquisitions of the company's stocks and for cash dividends will be limited in the aggregate to 75% of the consolidated net earnings after March 2, 1957. At February 29, 1964, 75% of such consolidated net earnings exceeded such payments by approximately \$15,700,000 and, accordingly, none of the balance of retained earnings is so restricted.
7. The companies have 497 leases on store, warehouse and other properties expiring after February 25, 1967. The minimum annual rentals on such leases, not including real estate taxes or other expenses payable under the terms of certain of the leases, aggregate approximately \$12,663,000. Of the aggregate annual rentals, \$8,767,000 applies to leases expiring prior to March 3, 1979 and \$3,896,000 applies to leases expiring thereafter but prior to 1992. In addition, the company is contingently liable on 36 leases applicable principally to stores sold, expiring after February 25, 1967, but prior to 1984, and having minimum annual rentals aggregating \$960,000.
8. Costs and expenses include depreciation and amortization of \$6,586,000 and \$6,381,000 for the periods ended in 1964 and 1963, respectively.
9. The company has entered into an agreement, subject to certain conditions, for the acquisition of the nine supermarkets and a warehouse of Stevens Markets, Inc., of Miami, Florida.

Auditors' Report

TO THE STOCKHOLDERS,

The Grand Union Company, East Paterson, New Jersey

We have examined the consolidated balance sheets of The Grand Union Company and its Subsidiaries as of February 29, 1964 and March 2, 1963, and the related statements of income and retained earnings and of capital surplus for the fifty-two week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiary companies, which statements were examined by other certified public accountants whose reports thereon have been furnished to us. Our opinion expressed herein insofar as it relates to the amounts included for such subsidiary companies is based solely upon such reports.

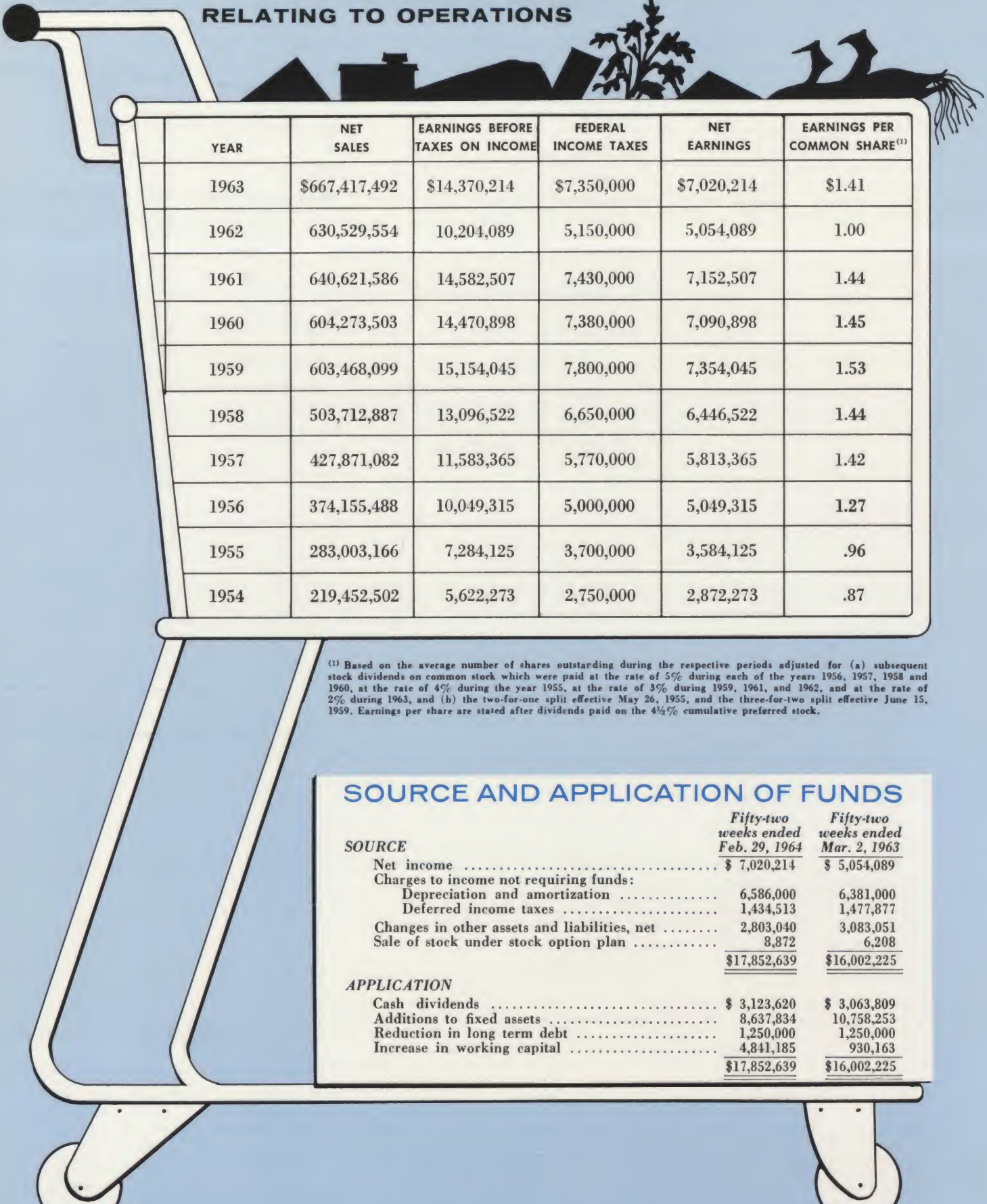
In our opinion, the accompanying financial statements (pages 4 through 7) present fairly the consolidated financial position of The Grand Union Company and its Subsidiaries at February 29, 1964 and March 2, 1963, and the consolidated results of their operations for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, April 16, 1964.

TEN YEAR COMPARISONS

RELATING TO OPERATIONS



YEAR	NET SALES	EARNINGS BEFORE TAXES ON INCOME	FEDERAL INCOME TAXES	NET EARNINGS	EARNINGS PER COMMON SHARE ⁽¹⁾
1963	\$667,417,492	\$14,370,214	\$7,350,000	\$7,020,214	\$1.41
1962	630,529,554	10,204,089	5,150,000	5,054,089	1.00
1961	640,621,586	14,582,507	7,430,000	7,152,507	1.44
1960	604,273,503	14,470,898	7,380,000	7,090,898	1.45
1959	603,468,099	15,154,045	7,800,000	7,354,045	1.53
1958	503,712,887	13,096,522	6,650,000	6,446,522	1.44
1957	427,871,082	11,583,365	5,770,000	5,813,365	1.42
1956	374,155,488	10,049,315	5,000,000	5,049,315	1.27
1955	283,003,166	7,284,125	3,700,000	3,584,125	.96
1954	219,452,502	5,622,273	2,750,000	2,872,273	.87

⁽¹⁾ Based on the average number of shares outstanding during the respective periods adjusted for (a) subsequent stock dividends on common stock which were paid at the rate of 5% during each of the years 1956, 1957, 1958 and 1960, at the rate of 4% during the year 1955, at the rate of 3% during 1959, 1961, and 1962, and at the rate of 2% during 1963, and (b) the two-for-one split effective May 26, 1955, and the three-for-two split effective June 15, 1959. Earnings per share are stated after dividends paid on the 4½% cumulative preferred stock.

SOURCE AND APPLICATION OF FUNDS

SOURCE	Fifty-two weeks ended Feb. 29, 1964	Fifty-two weeks ended Mar. 2, 1963
Net income	\$ 7,020,214	\$ 5,054,089
Charges to income not requiring funds:		
Depreciation and amortization	6,586,000	6,381,000
Deferred income taxes	1,434,513	1,477,877
Changes in other assets and liabilities, net	2,803,040	3,083,051
Sale of stock under stock option plan	8,872	6,208
	<u>\$17,852,639</u>	<u>\$16,002,225</u>
APPLICATION		
Cash dividends	\$ 3,123,620	\$ 3,063,809
Additions to fixed assets	8,637,834	10,758,253
Reduction in long term debt	1,250,000	1,250,000
Increase in working capital	4,841,185	930,163
	<u>\$17,852,639</u>	<u>\$16,002,225</u>

OFFICERS

THE GRAND UNION COMPANY

THOMAS C. BUTLER

President and Chief Executive Officer

EMERSON E. BRIGHTMAN

Vice President

JOSEPH L. ECKHOUSE

Vice President

BERNARD A. LUBECK

Vice President

LLOYD W. MOSELEY

Vice President

WILLIAM H. PREIS

Vice President

CHARLES G. RODMAN

Vice President

BERTRAM D. SHEPARD

Vice President and Secretary

EARL R. SILVERS, JR.

Vice President

CHARLES H. HAIGHT

Treasurer

TRANSFER AGENT

THE CHASE MANHATTAN BANK

New York, N. Y. 10015

REGISTRAR

CHEMICAL BANK NEW YORK
TRUST COMPANY

New York, N. Y. 10015

DIRECTORS

THE GRAND UNION COMPANY

*JOHN E. RAASCH

CHAIRMAN OF THE BOARD

*Former President & Chairman of the
Board of Directors, John Wanamaker*

*LOUIS A. GREEN

CHAIRMAN OF THE EXECUTIVE COMMITTEE

*Partner, Stryker & Brown
Securities, New York City*

*THOMAS C. BUTLER

President and Chief Executive Officer

EMERSON E. BRIGHTMAN

Vice President

WILLIAM F. DEMPSEY

*Former Senior Vice President
The Grand Union Company*

JOSEPH L. ECKHOUSE

Vice President

RAYMOND H. FOGLER

*Former President
W. T. Grant Company*

IRVING KAHN

*Partner, Abraham & Co.
Securities, New York City*

WILLIAM I. MYERS

*Former Dean, College of Agriculture
Cornell University, Ithaca, New York*

WILLIAM H. PREIS

Vice President

ARTHUR J. QUINN

*Executive Vice President
The New York Bank for Savings*

CHARLES G. RODMAN

Vice President

LAURENCE A. TISCH

*Chairman of the Board of Directors
& President, Loew's Theatres, Inc.*

* Denotes members of the Executive
Committee of the Board of Directors



GRAND UNION SUPERMARKETS

CONNECTICUT	30
FLORIDA	22
MARYLAND	16
MASSACHUSETTS	5
NEW HAMPSHIRE	16
NEW JERSEY	56
NEW YORK	279
PENNSYLVANIA	4
VERMONT	22
VIRGINIA	16
WEST VIRGINIA	1
WASHINGTON, D.C.	3
PUERTO RICO	10
TOTAL	480*

THE GRAND UNION COMPANY

100 Broadway

East Paterson, N. J. 07407



GRAND-WAY DEPARTMENT STORES

CONNECTICUT	5
Danbury, Manchester, Stratford, Waterbury, West Haven	
FLORIDA	8
Fort Lauderdale, Miami (2), Orlando, St. Petersburg (2), Tampa, West Hollywood	
NEW JERSEY	2
Keansburg, Paterson	
NEW YORK	7
Albany, Binghamton, Cortland, Nanuet, Plattsburgh, Poughkeepsie, Yonkers	
VERMONT	1
South Burlington	
TOTAL	23*

*As of April 22, 1964